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September 12, 1990

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Dear Sir:

We have been asked by Charles J. Barrett and by Richard L. Pepper to supply you with certain information in connection with your audit of Empire Industries, Inc. (the "Company") and its subsidiaries (including the Midwest Rubber Reclaiming Division of Empire Chem, Inc.).

While this firm has provided advice to the Company and one of its subsidiaries (Empire Chem, Inc.) on several occasions during the year ended June 30, 1990 and to the date of this letter, by necessity our response is limited to the specific subjects about which we have been consulted. As a result, there may exist legal matters on which we have not been consulted which may bear on the financial condition of the Company and its subsidiaries.

As of the date of this letter, we have been asked to devote substantial attention on behalf of the Company or its subsidiaries to the following litigation, claims or assessments pending at June 30, 1990, or which arose subsequent to such date to the date of this letter.

1. Midwest Rubber Reclaiming Company ("Midwest") was one of a large number of defendants in litigation involving the cleanup of a hazardous waste disposal site in Jefferson, Ohio known as the Laskin/Poplar Oil site (the "Site"). Empire Chem, Inc. ("Chem"), a subsidiary of the Company, acquired

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substantially all of the assets of Midwest effective June 30, 1986. Midwest is alleged to be a generator of hazardous substances disposed of at this site. Partial cleanup of the site has occurred, and payment for the cleanup of portions of the site has been settled.

Litigation over the Site was pending at the time of the sale of assets of Midwest to Chem and was disclosed to Chem pursuant to the Agreement for Purchase and Sale of Assets dated as of July 24, 1986 by and among Chem, Midwest, Hoover Hanes Rubber Corporation and GIT Industries, Inc. ("GIT") (the "Purchase Agreement"). While Chem agreed to assume responsibility for the conduct of the defense to this matter, Midwest retained all liabilities in excess of \$75,000 associated with the Laskin litigation pursuant to the Purchase Agreement.

Chem has paid \$18,750 to settle the phase of the litigation over the Site that was pending at the time of the sale (United States v. Laskin, in which the United States sought to recover certain costs it had incurred through June 17, 1985 in remediating the Site, and in which Midwest was brought in as a third-party defendant). On October 12, 1989, the United States filed a complaint that named jointly Midwest and Chem and numerous other defendants, seeking reimbursement of approximately four million dollars for certain costs the government had incurred or will incur at the Site after June 17, 1985 (U.S. v. ABS Industries, Inc.). That action is still pending. In addition, a number of parties (not including Midwest or Chem) have agreed to conduct additional remedial activities at the Site, which some have estimated will cost approximately twenty million dollars.

Settling or otherwise resolving the ABS Industries case would be expected to bring Chem's total payments to resolve the Laskin Site litigation over the \$75,000 limit established the asset purchase agreement. Chem therefore has demanded that the former owners of Midwest, which was dissolved in 1986, assume responsibility for Site litigation. Additional negotiations will be necessary to resolve this dispute with Midwest's successors.

Chem will continue to pursue negotiations with Midwest's successors, but also will monitor settlement negotiations between the government and other defendants. According to government figures, a payment in the range of \$150,000 to \$220,000 by Chem may be sufficient to settle the government's claim. In addition, it is possible that the other parties who have agreed to conduct

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remedial activities may make reimbursement claims against Chem. The amount of such claims, if any, is unknown at this time.

2. Midwest was notified on March 30, 1987 by the Illinois Environmental Protection Agency ("IEPA") that it is a potentially responsible party with respect to cleanup activities at the United Steel Drum ("USD") waste disposal site in East St. Louis, Illinois. Chem has been informed that IEPA sent such notices to almost 200 companies. Chem has checked its records and believes Midwest's only contact with the USD site was in 1978, at which time the Midwest facility located in Sauget, Illinois sold drums to USD or repaired drums for USD for approximately \$150. Nevertheless, Chem initially agreed to participate with a large number of other parties that received notices from IEPA in a coordinated response to IEPA, and paid \$2,000 to a fund created to cover certain administrative and investigative costs. Chem was asked in late 1987 to pay an additional \$4,000 assessment to cover similar costs but did not make such payment and has withdrawn from the group because of the limited nature of its involvement at the site and belief that such a payment for administrative and related costs would be out of proportion with this limited involvement. (The proportionate share of waste at the site attributed by the group to Midwest is approximately .1%.) Chem has remained in contact with the group and receives information from time to time regarding the cleanup. Remedial action at the USD site is ongoing and Chem believes that action was initially funded by the owners and/or operators of the USD site. To our knowledge, Chem has received no notices from IEPA and does not believe Midwest has received any further notices from IEPA.

The USD matter was not pending at the time of the sale of assets and, consequently, was not disclosed pursuant to the Purchase Agreement. Chem notified GIT and Midwest of the matter and, pursuant to the Purchase Agreement, requested indemnification from GIT and Midwest for losses, if any, Chem incurs as a result of the USD Matter. Although GIT has disputed this indemnification obligation, we believe, based upon the language of the Purchase Agreement, that Chem has a valid claim for to indemnification from GIT for losses, if any, that it incurs as a result of the USD matter.

3. Midwest was a defendant in litigation filed in June of 1987 by a former employee investigating possible asbestos exposure. The complaint did not specify the time period during which the employee believes the exposure occurred. The

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proceeding was filed as a discovery proceeding and the complaint did not state a claim for damages. Chem responded to all discovery requests made by plaintiff's counsel and the plaintiff has made no claims for damages against Midwest or Chem to date. A motion to dismiss the complaint was filed in December of 1989 and counsel is awaiting a decision from the Court. The attorney who handled the matter on behalf of Chem is Richard E. Guster, Thompson, Hine and Flory, 50 South Main Street, Akron, Ohio 44308.

To the extent alleged asbestos exposure occurred prior to the acquisition by Chem of the assets of Midwest, Chem believes it is entitled to, and has requested, indemnification from Midwest and GIT pursuant to the Purchase Agreement. Although GIT has disputed this indemnification obligation, we believe, based on the language of the Purchase Agreement, that Chem has a valid claim for indemnification from GIT for losses, if any, that it may incur as a result of this matter.

4. On December 27, 1989, the U.S. Environmental Protection Agency ("EPA") demanded reimbursement from four parties for almost \$50,000 in expenses allegedly incurred by EPA to address contamination in Dead Creek, near Chem's East St. Louis, Illinois facility. Chem has negotiated an agreement under which it will pay \$3,125 to settle this claim.

5. In August, 1989, the IEPA demanded that Chem and others investigate and remediate a number of allegedly contaminated sites in Sauget, Illinois (near East St. Louis). Chem recently entered into an agreement under which it will pay 4% of up to \$1,000,000 to investigate one of these sites, a former wastewater treatment facility. There is evidence that the East St. Louis facility (when owned by Midwest) also may have discharged waste to Dead Creek. Chem plans to monitor negotiations between IEPA and other parties, and may agree to pay some portion of the investigation and remediation sought by IEPA at Dead Creek. Chem may seek to have the former owners of Midwest pay for some or all of such costs. The amount of such costs cannot be estimated at this time.

This response is limited by, and in accordance with, the ABA Statement of Policy Regarding Lawyers' Responses to Auditors' Requests for Information (December 1975); without limiting the generality of the foregoing, the limitations set forth in such Statement on the scope and use of this response (Paragraphs 2 and 7) are specifically incorporated herein by reference, and any

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description herein of any "loss contingencies" is qualified in its entirety by Paragraph 5 of the Statement and the accompanying Commentary (which is an integral part of the Statement). Consistent with the last sentence of Paragraph 6 of the ABA Statement of Policy and pursuant to the Company's request, this will confirm as correct the Company's understanding that whenever, in the course of performing legal services for the Company with respect to a matter recognized to involve an unasserted possible claim or assessment that may call for financial statement disclosure, we have formed a professional conclusion that the Company must disclose or consider disclosure concerning such possible claim or assessment, we as a matter of professional responsibility to the Company, will so advise the Company and will consult with the Company concerning the question of such disclosure and the applicable requirements of Statement of Financial Accounting Standards No. 5.

Sincerely,



Dean H. Cannon

cc: Mr. Charles J. Barrett
Mr. Stephen F. Hollister
Mr. Richard L. Pepper✓

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